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MAGAZINE FOR GROWING COMPANIES

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Inc.

LOSING IT ALL

How Bill Rodgers Lived Through Every Business Owner's Nightmare

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Tom Peters: In Defense of Incentives

PAGE 86
Anatomy of a Start-up: New Brew

PAGE 140
Financing Growth Without Bank Debt or Equity

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by
Seth Resnick

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TRADING PLACES

The conventional wisdom is that large companies are more likely to export than small ones. Once again, the conventional wisdom is wrong

BY DAVID L. BIRCH

Small companies don't export—I hear it all the time. Join a discussion about the state of our global competitiveness and you'll hear it, too. Perhaps you'll be the one who says it.

• We all worry, justifiably, about the inability of our industrial giants to compete abroad—about their inability to innovate and create attractive products at attractive prices in world markets. Though highlighted by the recent, massive trade deficit (itself highlighted by the recent, massive stock-market collapse), the problem has been gnawing at us since the mid-1970s. And if big companies can't win overseas, how on earth can smaller ones? What company of, say, 100 employees can overcome all the barriers caused by distance, language, currency, and culture? . . . Or so the hypothesis goes.

This, to some, spells trouble. I've noted before that a changing of the guard is taking place among U.S. businesses, particularly in the manufacturing sector. There has been a general decline of larger companies, offset by smaller enterprises that are growing rapidly and taking up the slack. To theorists of the small-companies-don't-export variety, the increasing significance of smaller businesses means one thing: no hope for the trade imbalance.

Fortunately, and surprisingly, the theory is wrong.

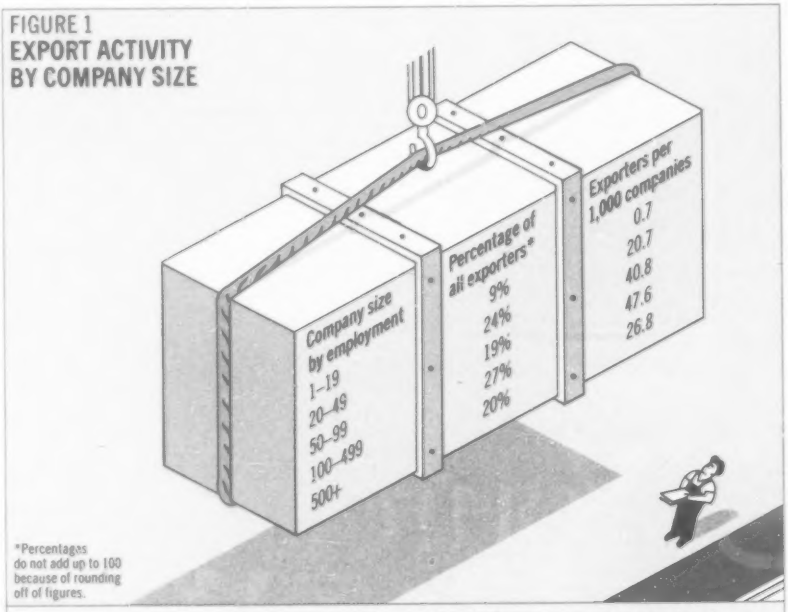
Data exist for about 40,000 companies involved in international trade, 34,000 of which export (the rest are importers only). It's not a complete sample. The international activities of many smaller companies are hard to track, so the database inevitably overemphasizes—and better represents—larger manufacturing-related companies. Still, what it indicates about smaller companies is fascinating.

First, the businesses most likely to be exporters today are small, not large. The second biggest group of exporters consists of companies with just 20 to 49 employees (see figure 1).

While statistics suggest that it's difficult for enterprises with fewer than 20 employees to reach beyond U.S. borders, trading abroad becomes common among companies that have crossed the 20-employee threshold.

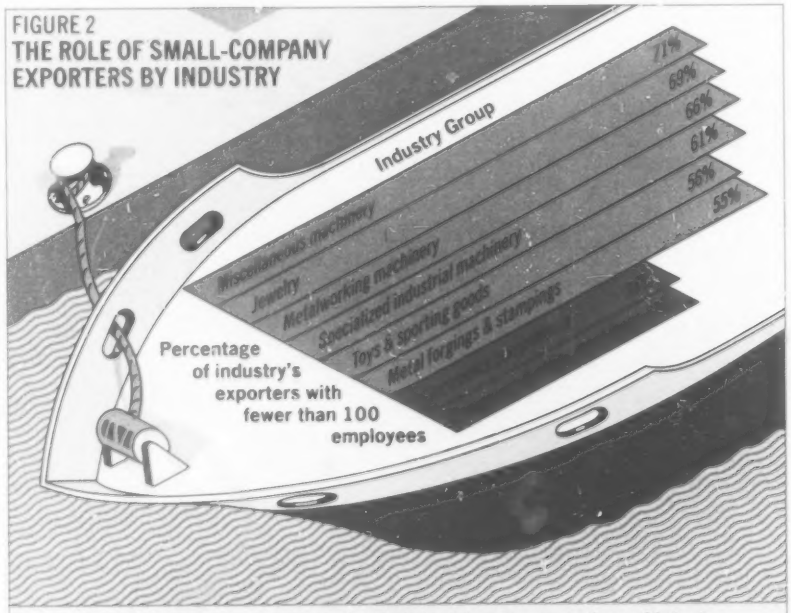
In fact, more than half of all exporters have fewer than 100 employees. Even more significant, the proportion of 50- to

FIGURE 1
EXPORT ACTIVITY BY COMPANY SIZE



More than half of all exporters have fewer than 100 employees, and companies with 50 to 99 employees are more likely to export than those with over 500.

FIGURE 2
THE ROLE OF SMALL-COMPANY EXPORTERS BY INDUSTRY



Small-company exporters aren't high tech. Often they come from old, basic low-tech industries—in which the changing of the guard is happening fastest.

CHARTS: NIGEL HOLMES

99-employee companies that export is greater than the proportion of 500-plus-employee companies that do. Of course, this is not to say that the smaller businesses export more in aggregate than the larger ones; they don't. But it is true that small, dynamic companies *can* export successfully. They are doing so in large numbers—a finding made more remarkable by their underrepresentation in the data. So much for the myth that such companies can't export.

"Fine," a skeptic might respond, "I can imagine some smaller companies selling abroad, but they're all high-tech companies pushing a few exotic products." When it comes to basic industry, this sort of argument continues, the world is taking us to the cleaners, even in the small-business universe.

Again, not true. Small exporters tend to be found in *stable or declining* industries, many of which contain a large number of expanding companies. This makes sense. Small exporters are found in industries in which the changing of the guard is taking place the fastest. The very decline of such industries provides opportunities for smaller companies to identify a niche and figure out a clever way to exploit it—clever enough, in many cases, to support successful marketing abroad. Lots of small companies are exporting sawed lumber, steel forgings, jewelry, or toys.

The number of such low-tech exporters significantly exceeds the number of exporters of more exotic products such as computers, electronics components, or medical instruments. Almost three times more companies sell metalworking machinery abroad than export computers and office machines. And, as figure two shows, many of these low-tech exporters are smaller, not larger companies. The much-publicized woes of our basic industries appear to represent a great opportunity for small enterprises within them.

All of this would suggest that dynamic smaller businesses, already regenerating our domestic economy, might begin closing the trade gap. There's one problem: it takes smaller companies a long time to get going in export markets, and therefore a long time to make their influence felt. Almost 80% of small exporters are more than 12 years old, and virtually none are less than 4 years old. This contrasts sharply with big-company exporters, 44% of which are less than 12 years old.

It figures, in a way, that smaller companies would take longer to feel a need for foreign business, and to marshal the resources to get it. But 12 years is a long time. Given that these are the businesses that create most of the New Economy's jobs, might there be an enormous opportunity to expand exports simply by encouraging smaller businesses to cross national boundaries sooner?

Well, maybe. But we should remember that the export activity of such companies may already be better than we think. I suspect that many smaller, growing companies are selling abroad without us knowing about it. My own company has sold overseas and is not listed among the exporters in the database. Businesses that don't put their products in boxes and ship them on planes or boats (with the necessary permits) are often not listed as exporters simply because there's no way to track what they do abroad. The federal statistical system can't follow them, except through aggregate currency exchanges.

We know, for instance, that aggregate U.S. service exports are beginning to approach aggregate U.S. goods exports ($148 billion for services versus $224 billion for goods in 1986), yet nongoods exporters represent only 4% of our database.

The federal government has expressed similar concern about its own ability to monitor service exporters. The truth is, we don't really know how well a major component of the New Economy—the service sector—is doing abroad.

From what we do know, however, it's clear that exporting is not limited to large manufacturing or trading companies. We know that tens of thousands of smaller companies are selling their products and services all over the world. Many thousands that we don't know about are probably doing likewise.

For owners and managers of smaller companies who haven't thought of exporting as being feasible, these facts can serve as admonition. And inspiration, too. □

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

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BY JOEL KOTKIN

▶ STORY PROPOSAL ◀

It has become apparent that the Japanese and others are busy buying up American banks. A growing number of these foreign-owned banks have made a specialty of serving what bankers call the middle market, companies ranging in size from $10 million to $250 million in sales. If our experience here in California is any indication, they are going to give the American banks a run for their money. I propose a short piece outlining the extent of the invasion by foreign-owned banks, some of the problems that have been encountered, and the effect it has had on several growing American firms.

A YEN FOR LENDING

First came foreign cars, then televisions and VCRs. Next stop, your local bank

AFTER BEING DELAYED AND stalled by half a dozen other financial institutions, California developer Ralph Rittenhouse found a local bank that was willing not only to back his small, $3-million residential development company, but even to help him promote it.

Tools and hydraulics distributor Irving Fisher's business was growing, but his bank lines were not. Despite a long-lasting relationship with a local branch loan officer, Fisher couldn't get the bank's loan committee to approve the additional financing for a planned expansion. So Fisher turned to another local bank that was willing to treat his business as a long-term growth prospect.

Over the past decade, Alan Kesten turned his small, family-owned fragrance business in Long Island City, N.Y., into an international company with $20 million in sales. Much of the credit, he says, belongs to his bankers, who recently extended $1.5 million in credit for a key expansion into an important new market.

What these three entrepreneurs have in common is that their local banks are not really local at all. In fact, they are all owned by foreigners—foreigners who have recently discovered the potential of the American middle market.

"We see this as the best way to participate in the most dynamic part of the American economy," explains William Knowles, chairman and chief executive of National Westminster Bank USA, based in Manhattan, the American subsidiary of London's financial giant. "There's no need for another bank in New York to serve Exxon. For us, the diversity in the middle market offers the best way to build long-term earnings."

Although foreign banks have operated in the United States for generations, they had traditionally stuck to servicing the financial needs of foreign corporations doing business here. No longer. As foreign countries built up large dollar reserves and their banks began looking for growing economies, the United States offered an attractive new market. Their entry was further encouraged by bank deregulation, which made it easier for foreigners to buy a mid-size American bank in the hopes of taking it into regional and national markets. The pace has been nothing short of astounding: foreign-owned banks now control an estimated 22% of all commercial loans in the United States, and have become an important source of capital not just for Wall Street but also for the small and growing companies along Main Street.

The internationalization of finance and the internationalization of markets are the hands that wash each other in this economy of the 1980s. And certainly one area in which foreign-owned banks have been able to stake a claim has been in helping smaller American companies transact business overseas.

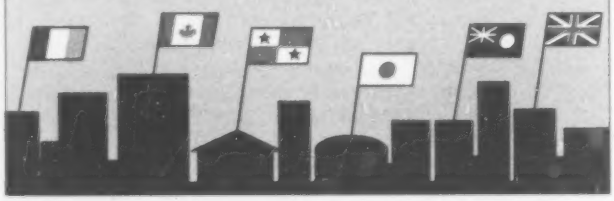
"I don't know what it is, but there doesn't seem to be a lot of interest in trade among American banks," notes Junji Hatano, a top official with The Bank of California, a

CHART ILLUSTRATIONS DEBRA PERUGI

LARGEST U.S. BANKS CONTROLLED BY FOREIGN BANK HOLDING COMPANIES, RANKED BY ASSETS

	($ billion)
Marine Midland Bank—Buffalo, N.Y. Hongkong & Shanghai Banking—Hong Kong	$21.5
Republic National Bank of New York—New York City Saban—Panama	17.1
National Westminster Bank USA—New York City National Westminster Bank—United Kingdom	11.3
Union Bank—Los Angeles* Standard Chartered—United Kingdom	9.1
Harris Trust & Savings Bank—Chicago Bank of Montreal—Canada	8.2
Bank of Tokyo Trust—New York City Bank of Tokyo—Japan	6.0
California First Bank—San Francisco* Bank of Tokyo—Japan	6.0
Sanwa Bank California—San Francisco Sanwa Bank—Japan	5.2
First National Bank of Maryland—Baltimore Allied Irish Banks—Ireland	4.7
Fuji Bank & Trust—New York City Fuji Bank—Japan	4.6
Bank of California—San Francisco Mitsubishi Bank—Japan	4.5

*Agreement has been reached for California First to acquire Union Bank. The transaction is slated for completion in mid-1988.
Information as of 6/30/87. Source: Sheshunoff & Co. Information for Union Bank as of 12/31/87



subsidiary of Japan's giant Mitsubishi Bank, which is almost relentless in its focus on the middle market. "It's a difficult business, and it tends not to be profitable in the short run. But it cements a relationship with the customer for his domestic business."

With the dollar weak, American manufacturing firms are especially looking to overseas markets for growth and profitability, and foreign-owned banks have positioned themselves well to ride the wave—among them California First Bank, owned by Bank of Tokyo, and Walter E. Heller International Corp., the Chicago finance company now owned by The Fuji Bank. In addition to offering trade financing, these banks take pains to help client companies identify potential distributors, partners, agents, and customers overseas, leveraging their Asian connection.

It is much the same with National Westminster Bank USA, with its program targeted to European expansions. At Belmay Co., for example, CEO Alan Kesten used his bank's connections to take his fragrance-compounds manufacturing business international last year when he spotted an opportunity to set up a branch plant in Wellingborough, 70 miles north of London. Kesten's local NatWest loan officer arranged for a $1.5-million loan to finance the expansion, and the bank's branch officers in Northampton, not far from the Wellingborough facility, helped with additional local lines of credit, payroll, and other financial services.

"We told them what we wanted to do and they took us to England like we were moving next door," recalls Kesten. "Whenever we've had to move or expand, they've been very committed to us."

Other clients apparently also sense that commitment. Since 1981, NatWest's domestic loans have more than tripled, to nearly $7.3 billion, with 88% of the portfolio in midmarket commercial loans. With the purchase last year of First Jersey National Corp., in neighboring New Jersey, NatWest, with assets exceeding $11 billion, has set out to become a "superregional" serving middle-market companies throughout the Northeast.

For sheer aggressiveness, however, nothing matches the way the Japanese have attacked the American banking market. Japanese-owned banks today already account for more than 8% of the commercial loan market in the United States, up 100% since 1980 and more than three times the share now held by British banks. And by far, the most significant Japanese penetration has occurred in California, where 8 of the 12 major Japanese banks have set up shop. At first, these banks focused their attention on Japanese corporations that maintain operations in California. But more recently, they have set out to dominate the state's banking industry with the same vigor that they attacked the American auto industry a generation ago. Today, 5 of California's 11 largest banks are Japanese owned, and the Japanese now control roughly 20% of California's banking assets.

Nearly all of the acquisitions made by major Japanese banks in the state—Mitsui's purchase of Manufacturers Bank in Los Angeles, California First's recent acquisition of Union Bank, and Mitsubishi's Bank of California bid—have involved local banks known for strength in the middle market. And that is not merely coincidence. With their cultural orientation toward relationships rather than transactions, the Japanese see an advantage in serving smaller, growing companies—the very companies that complain most frequently about American banks being unresponsive and unreliable.

"When I walked in here, it was like a breath of fresh air," recalls Tom Edmiston, a former official with Wells Fargo Bank, now at California First Bank in San Francisco. "There was an attitude of teamwork that the Japanese really promote, and a real commitment to service the customer. The whole atmosphere is easier and more laid back. Instead of 'Who's going to get the credit?' or 'Who's going to get canned?' the question is 'How can we make this deal and service the customer?' "

And make deals it has. Even before the announcement of the acquisition of Los Angeles's Union Bank earlier this year, the assets of California First had soared nearly 50% during the previous five years, to more than $6 billion, making it the largest Japanese-owned bank in California and the seventh largest bank in the country. In the booming San Diego area, California First's retail market share ranks second only to Bank of America.

Irving Fisher used to be with Bank of America. But in 1975, when he needed cash to expand his growing Fisher Tool Co., d/b/a Astro Pneumatic, the bank turned him aside. "I had a great relationship with my

loan officer, but, to put it frankly, I ended up being treated like a name and number," Fisher says. "Anything over $10,000 and that was it—you get before a committee where people don't know you from Adam. And besides, Bank of America didn't have the expertise to help us with international trade."

At California First, Fisher says, response time has been vastly superior, and in 1986 alone, his credit line was increased three times. Today it stands at more than $10 million—that for a business writing $40 million a year in sales. But what impresses him most is his Japanese-style relationship with his bankers, who are apt to drop by his warehouse every couple of months to take him to lunch or, on occasion, even accompany him to trade shows. And when Fisher visits Japan looking for suppliers and distributors, all the stops are pulled out to make sure that this valued midmarket customer is treated like a first-class VIP.

"In this country, you can deposit $100,000 in your bank and they take the money," says Fisher. "But you don't make a friend—there's no feeling there. With these guys, it takes a little more time, but you build a relationship. They learn your business, and it makes a big difference."

Mind you, not all Japanese bankers are created equal in their ability to serve the American middle market—or at least not right away. A recent move by The Dai-Ichi Kangyo Bank, the world's largest, to buy a $150-million package of American loans raised some eyebrows in Tokyo. "In Japan, we get to know the president for many years," explained one Tokyo-based bank manager. "But in America, the company president is often a youngster. We don't like that at all."

Such concerns lead some Japanese banks to start out in the United States setting up arduous loan procedures marked by concern over security that appears absurd by American standards. And, as with many new foreign operations, there is always the problem of checking with the home office. "The guys I was dealing with didn't seem to have any authority at all," notes an early customer of California First. "That made them very cautious. They have a reputation for loaning money to people and then backing out. They've killed a lot of young companies here."

Because of such problems in making the transition to America, several Japanese banks initially have endured large-scale losses from their middle-market institutions—notably Mitsui Bank with Mitsui Manufacturers Bank and Fuji with Heller in Chicago. But don't for a moment count them out. Norman Blake, Heller's chairman and CEO, reminds the skeptic that it has taken him three years and $725 million in additional capital to finally turn around his troubled finance company, which this year reported its first significant profit since being acquired by Fuji for $425 million in 1984. That kind of commitment, he says, proves that the Japanese are into American banking for the long haul.

"I am awed by their long-term view," says Blake. "They were willing to suffer to get into the market. When an American company buys another company and it doesn't work out, they twist and tie it or throw it away. The Japanese are much more patient."

The Japanese are not the only foreigners to have had trouble entering the American market. Perhaps the most noteworthy failure remains the disastrous acquisition of San Francisco's Crocker National Bank, which nearly toppled London's venerable Midland Bank before it unloaded Crocker onto Wells Fargo Bank. Another British bank, Standard Chartered, suffered such heavy losses that it was forced to sell Los Angeles–based Union Bank to the Japanese.

The newest and potentially some of the strongest players in the American banking game are the Chinese. In their case, it is not large Chinese banks making the foray, as with the Japanese and British. More common is the purchase of an American bank by groups of Chinese investors, either from Hong Kong or Taiwan.

The Taiwanese are particularly aggressive. Taiwan's dollar currency reserves today stand at around $70 billion, among the largest of any foreign country. By rights, that should have made it an international banking power. But as a mercantilist state that has virtually prohibited foreign investment, Taiwan's banking potential has never been realized. Only recently has Taiwanese capital begun to flow into the United States, often through mysterious and backdoor channels. Some of it has made its way into banking.

By various reports, Taiwanese cash has played a pivotal role in the founding or purchase of around 45 banks during the past

LARGEST BANKS IN THE WORLD, RANKED BY ASSETS

FIGURES FROM FISCAL 1986

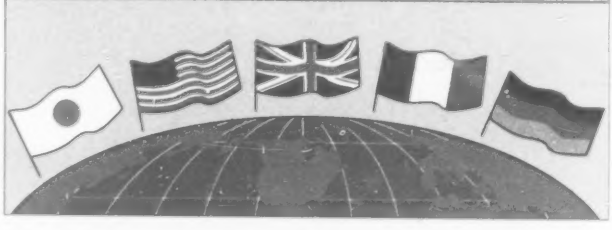
		($ billion)
Dai-Ichi Kangyo Bank	Japan	$239.6
Fuji Bank	Japan	212.4
Sumitomo Bank	Japan	205.1
Mitsubishi Bank	Japan	203.8
Sanwa Bank	Japan	191.4
Norinchukin Bank	Japan	161.6
Industrial Bank of Japan	Japan	160.8
Credit Agricole Mutuel	France	156.4
Citibank	United States	145.9
Banque Nationale de Paris	France	143.7

Source: *American Banker*, 7/31/87. Assets exclude contra accounts and contingent liabilities. Foreign currency is converted to U.S. dollars at the end of each of the company's fiscal years.

FIGURES FROM FISCAL 1980

		($ billion)
Banque Nationale de Paris	France	$107.9
Credit Agricole Mutuel	France	106.3
Bank of America	United States	104.5
Credit Lyonnais	France	98.5
Citibank	United States	96.8
Societe Generale	France	90.5
Barclays Bank	United Kingdom	88.7
Deutsche Bank	Federal Republic of Germany	87.7
National Westminster Bank	United Kingdom	82.7
Dai-Ichi Kangyo Bank	Japan	79.4

Source: *American Banker*, 7/29/81.



Internationalization of finance in the 1980s has given small U.S. firms access to loans from U.S. subsidiaries of foreign banks.

decade, most of them in New York City, San Francisco, and Los Angeles. Like the Japanese, the Chinese are attracted to these locations through family and ethnic ties. But even more than the Japanese, the Taiwanese are single-minded in their focus on lending to small and growing companies, which in their native Taiwan is what business is all about.

Harold Chuang is typical of the Taiwanese banker in the United States. At age 24, Chuang left Taiwan for Los Angeles, where he was to study for his M.B.A. But like many Taiwanese students—including the vast majority of all graduate degree holders—Chuang decided to stay for the "much better opportunities" available in America. In the years that followed, Chuang founded his own accounting firm and took control of Webster Career College, a vocational training school in Los Angeles. He was already a major figure in the local Chinese business community when a group of executives from struggling American International Bank approached him for an investment. By 1985, Chuang, allied with other Chinese investors in Los Angeles and Taiwan, took control of the institution and became its chairman.

"We think Taiwan will be a major factor in the world economy," says Chuang, who also serves as the president of the National Association of Chinese-American Bankers, an organization of 22 banks in the United States. "They are going to be doing what Japan has been doing—but more in the middle market."

Initially, the middle market for American International was the booming Chinese business community in southern California. Two years ago, the bank bought a decaying Bank of America branch in Alhambra, in the heart of the heavily Asian San Gabriel Valley outside of Los Angeles. That branch, which had deposits estimated at between $10 million and $15 million, had been unprofitable for many years. It now boasts deposits of $40 million while contributing mightily to the bank's healthy profit margin.

But more recently, the Alhambra branch has been moving away from its all-Asian orientation, aggressively seeking business from others. Several non-Asian loan officers were recruited, and last year roughly half the business loans processed by the bank were to non-Asian businesses.

For at least one local business owner, the arrival of Chinese banking has been something of a godsend. Ralph Rittenhouse has been an active real-estate broker and developer in the San Gabriel Valley since 1962. But despite a successful track record, he found it almost impossible last fall to get a loan for his newest project, a nine-house subdivision in Arcadia, a well-to-do suburb east of Los Angeles.

"I went to the Bank of America and virtually every other bank or savings and loan around. But when I applied to them, they wanted to know what my other sources of income were," Rittenhouse recalls, sitting amidst the clutter of his construction site, dressed in baseball cap and jeans. "Here I am, sitting on $700,000 to $800,000 worth of property in a place where everything is going fast, and they are asking for security. They seemed more interested in backing doctors and lawyers—who don't know the business—than an experienced developer."

Finally, a friend suggested that Rittenhouse go to American International's new Alhambra branch. The response was almost instantaneous. Not only did the bank approve a $1.4-million loan, but processing took only 30 days—certainly less than half the time at most other banks.

"Foreigners have a different evaluation process," Rittenhouse believes. "They look at the property. They look at the person. They also look at the potential for the relationship, not just the short-term money question. At Bank of America, no one ever got to know me or the market."

Rittenhouse's arrangement with American International also had one unexpected benefit. Even before the loan was formally approved, officers at the Alhambra branch started letting the word out in the Asian community about the development. "The moment I hung up after getting verbal approval, my phone started ringing off the hook," Rittenhouse recalls with a smile. "They tell their people, their realtors, and their friends. They've been all over me."

All the interest, alas, was somewhat premature—at the time he had nothing to show prospective buyers other than blueprints and construction scaffolding. Nevertheless, Rittenhouse has come to appreciate the advantages of having a banker who thinks of himself as something of a partner. And without question, he expects that his next project will also be financed by his newfound Asian associates.

Like Alan Kesten and Irving Fisher, Ralph Rittenhouse is not threatened by the "invasion" of foreign capital into the United States. Quite the opposite. For them, foreign capital has brought a healthy dose of competition to a clubby and, at times, arrogant banking industry in America. And it has provided them with an important entry into an economy that is becoming increasingly internationalized for large and small companies alike. □

HANDS ON

Managers' Tips

OPERATIONS

CONTROLLING INSURANCE COSTS

If you've never checked the way your business is classified for insurance risk, maybe you should. As Craig Hickerson discovered, an unchecked mistake can be costly.

Hickerson's lesson came in the form of a bill for workers' compensation coverage at a new branch office of his company, Kansas City, Mo.-based Hickerson Cable Installation Inc. Instead of the $1.80/$100 rate he was used to paying, the price had jumped to more than $3/$100. The reason? Hickerson had been classified with the kind of companies that string cable lines between telephone wires, something it doesn't do. Many of the the company's installations, in fact, are *underground*. "The insurance salesman thought he could slip it by me," Hickerson says. "I gave him the code we're normally classified under, and he was pretty surprised."

There are some 400 workers' compensation classifications, with rates from as little as 48¢/$100 for clerical businesses to more than $60/$100 for bridge workers. General-liability classifications are even more numerous—there are 700 to 800 of them. And liability classification errors are much more common than those for workers' comp. Call your agent today. □

PERSONNEL

WHERE THEY FLEX

Flextime policies, allowing employees to choose their starting and quitting times within stated limits, were found at 30% of companies nationwide in 1987, compared with 15% in 1977. The map above illustrates flextime use by region.

FINANCE

MAKING THEM PAY

Few companies like waiting for long-overdue payments. But lots of them put up with it, especially on large sales to big customers they're afraid of losing. Not so Joyce Chen Inc. Even before the Waltham, Mass., maker of quality cookware delivered its first order to a department store conglomerate, company president Helen Chen began a surprisingly effective campaign to make such buyers meet her terms.

The strategy is simple: before a sale is shipped, Chen writes letters to the accounts-payable manager, the buyer, and the division head. In them, she reiterates the terms previously agreed on and emphasizes her expectation that they be met. Sometimes she mentions her policy against filling new orders if bills for earlier ones remain outstanding. With accounts she judges particularly risky, Chen asks that her letter be acknowledged in writing. If customers can't respond to a letter, she figures, why would they bother with timely payments?

So far, it's worked. None of Chen's customers has paid late or canceled an order. The secret, she says, is getting it all on paper. "You can talk all you like, but when it comes down to brass tacks, you've got to have it written or it doesn't mean a thing." □

EMPLOYEE COMMUNICATIONS

KNOW THINE ENEMY

How much should your employees know about your competition? A lot, according to Federal Express. The company's monthly internal newsletter includes two columns devoted to telling all: "Newsview," which excerpts dozens of published clips about Federal Express and its competitors, and "Competitive Corner," which has updates on the competition and tells "what Federal Express is doing to keep ahead of the enemy."

Employees learn about such happenings as United Parcel Service's test of a radio dispatch system and a gossip column's report that Jack Nicholson uses Fed Ex to get videotapes of Los Angeles Lakers games. Newsletter editor Carolyn Gause says employee surveys show that stories about competitors are among the best-read items in the publication. And at the same time that they provide some fun, she adds, the columns help employees become better informed about the industry. □

QUOTE OF THE MONTH

"Entrepreneurs should be realists, not optimists. Optimists always look for the light at the end of the tunnel; realists look for the next tunnel."

—self-described realist Tom Golisano, chairman and chief executive officer of $80-million Paychex Inc., in Rochester, N.Y.

DIAGRAMS: CYNTHIA DAVIS

HANDS ON

CAPITAL

WHERE MONEY-FINDERS FAIL

A first-time search for venture capital can be awfully confusing. Some entrepreneurs, unfamiliar with the jargon and uncertain about which steps to take and when, turn to money-finders—people who help write business plans and peddle them to venture firms. Trouble is, with many venture firms the presence of a money-finder can jeopardize your chances of making a deal.

"Money-finders are a distraction," says C. Richard Kramlich, of New Enterprise Associates, in California. "We're not bidding on the money-finder, we're bidding on the people who want to start a business. When I see finders, it's a negative."

Other venture financiers echo Kramlich. All agree that general networking within the finance community is a better way to connect with venture sources. They note that the best tips leading them to new companies often come from bankers or lawyers whose recommendations aren't made for a price. Still intent on hiring someone's help? Then at least be sure you never pay a fee up front, say the venture folks. Pay *only* upon completion of a deal. □

STRATEGY

YARDSTICKS

1. Profitability
2. Revenue growth
3. Productivity
4. Market share
5. Return on equity
6. Return on assets

Source: INC./USA Today

How INC. 500 CEOs assess performance

BENEFITS

MORALE GAP

Type of health program, from most common to least:	% of managers claiming program boosted morale:
Smoking control	9.0%
Health-risk appraisals	14.2%
Stress management	30.0%
Exercise/physical fitness	37.4%
Nutrition education	20.7%
High blood pressure control	15.0%
Weight control	34.4%

Source: Worksite Wellness Media Report

The health programs that make employees happiest

MANAGING PEOPLE

FOCUSING ON PRIORITIES

Among every chief executive officer's toughest challenges is keeping employees focused on what matters most—which, in the case of William H. Wilson's Pioneer/Eclipse, is "customers and quality." For Wilson, president of the cleaning-system manufacturer, instilling that focus was a two-step process.

First he initiated a "CQ" (customers and quality) campaign, handing out CQ badges, buttons, and posters, and placing CQ notes in pay envelopes. "The problem in my manufacturing plant was that employees didn't relate to customers," Wilson says. "They didn't realize that their boss *is* the customer."

To hammer home that lesson, Wilson puts his employees in closer contact with customers. He rotates managers into the customer-relations department, where they deal with the people who use the company's products. And he takes customers on tours of his plant, where they are introduced to line workers. The point, Wilson says, is simple: "We want to live and breathe the CQ program." □

COMPENSATION

INCENTIVES IN UNLIKELY PLACES

Beyond providing commissions for salespeople, many chief executive officers assume that searching for effective employee incentives isn't worth the trouble. But James A. Poure's experience suggests otherwise. Poure, head of General Alum & Chemical Corp., in Toledo, has built an incentive program for his company's truck drivers—with enviable results.

Instead of compensating drivers on an hourly basis, he encourages efficiency by paying them a percentage of freight tariff rates, which vary according to the weight of the load, the distance, and other factors. Now, says Poure, it's up to the drivers to manage their own time. Whether a trip takes four hours or eight, they earn the same amount. To discourage speeding and overweight loading, drivers are required to pay their own fines.

Poure calculates that General Alum now spends 15% less than it would pay for outside trucking, due to efficiency gains. Plus, it retains good drivers. The company's seven drivers, who still get paid vacations and medical coverage, earn 10% to 30% more than they'd earn on an hourly basis. □

PUBLIC RELATIONS

DRESSING FOR SUCCESS

If customers are getting the wrong idea about your business, maybe you've overlooked a detail that shapes their first impressions. Consider, for instance, your employees' clothing. Carl Schmitt found out at University National Bank & Trust Co., in Palo Alto, Calif., sometimes even slight changes in frontline attire can send patrons a new message.

When the bank opened, in 1980, it was perceived by some potential customers as elitist, in part because of its lofty account requirements (now at $1,500 minimum or $3,000 average balance for free checking). To create a more folksy feeling, a kind of dress code was developed: most of the men, from chief executive to teller, shed their jackets at the door.

"They work in their shirtsleeves," says Schmitt, who usually can be found coatless. "The idea is to go against that exclusive aura." Schmitt is quick to add, however, that the shirtsleeves are *not* rolled up. □

Reported by Leslie Brokaw, Teri Lammers, Sara P. Noble, Bruce G. Posner, and Stephen D. Solomon